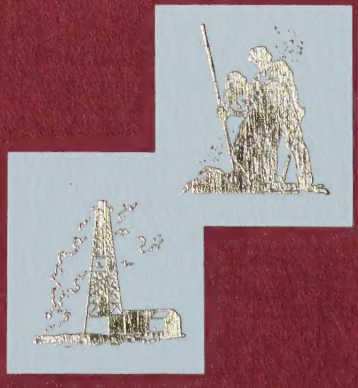
AR47

Rayrock Resources LIMITED

ANNUAL REPORT

1981



Directors

J. C. BYRNE, Toronto
Chairman of the Board
Discovery Mines Limited

S. J. CHAD, Calgary
President,
Signalta Resources Limited

D. R. CROMBIE, Toronto
President and Managing Director
Discovery Mines Limited

H. EARL JOUDRIE, Calgary
President and Chief
Operating Officer
NuWest Group Limited

JOHN KOSTUIK, Toronto
Director and Consultant
Denison Mines Limited

*W. STEUERMAN, Toronto
Secretary-Treasurer
Discovery Mines Limited

H. J. WHELAN, Bloomfield, N.J.
Senior Vice-President
The Lummus Group Inc.

*Nominee

Officers

J. C. BYRNE
Chairman of the Board

D. R. CROMBIE
President and Managing Director

W. STEUERMAN
Secretary-Treasurer

Senior Geologist
T. Antoniuk

Executive Office
Suite 1011, 2200 Yonge Street,
Toronto, Canada

Transfer Agent and Registrar
CROWN TRUST COMPANY, Toronto

Bankers
ROYAL BANK OF CANADA,
Bay and Temperance Branch, Toronto

Auditors
COOPERS & LYBRAND, Toronto

Solicitors
CAMPBELL, GODFREY & LEWTAS, Toronto

Annual Meeting
May 28, 1982, 11:00 a.m.,
Confederation Room No. 3,
Royal York Hotel, Toronto, Canada

Directors' Report to the Shareholders

1981 Highlights

- Record revenue and profits
- Pinson mine debt of U.S. $15,750,000 totally repaid in first 14 months of operations
- New gold discovery in Nevada
- Amalgamation of Pyx Explorations and Discovery Mines Limited.
- Oil and gas assets discounted value increases to $3.15 per share

Jerome C. Byrne

David R. Crombie

Revenue of $10,571,000 for 1981 was an all time record for your company. The principal contributors were Rayrock's share of the Pinson mine sales of $7,877,000 and oil and gas sales of $2,329,000. Cash flow from operations amounted to $4,882,000 which was $1.07 per share on the 4,549,000 common shares issued. Net profit of $2,960,000 before extraordinary item and $3,410,000 after extraordinary item was $0.65 and $0.75 per share, respectively. Working capital was reduced to $205,585 due principally to the significant level of additions to exploration and development expenditures on mining, oil and gas properties in the amount of $2,052,000. The market value of investments at year end was $3,990,000, including investments in associated companies. Your company is in a sound financial position with no debt and a substantial cash flow available for ongoing participations in mining and petroleum.

The Pinson open pit gold mine in Nevada, which is 26.5% owned and is operated by your company, had an outstanding year. Production commenced in late January 1981 with a trouble free start-up, a credit to the engineering and operating staff. In 1981, the mill processed 365,819 tons of ore with a grade of 0.195 ounces gold per ton and a mill recovery of 86.0%. Total gold sales were 56,369 ounces at an average price of U.S. $443.02 per ounce. The grade milled exceeded preproduction forecasts due to better than expected continuity of high grade sections in the A Zone and to less dilution in mining.

In mid-1981, 21,000 ounces of gold were sold forward with deliveries scheduled during the estimated repayment period of the bank project loan. The U.S. $15,750,000 bank project loan was fully repaid as of March 12, 1982. The final forward sale delivery was made on March 25, 1982 at a price of U.S. $449.00 per ounce.

A new gold discovery has been made in Nevada by the Cordex IV Syndicate, financed equally by Dome Mines Limited, Lacana Mining Corporation and Rayrock. Exploration is still in the early stages but drilling to date has indicated the presence of an orebody that is mineable by open pit methods.

Rayrock's associated companies, Discovery Mines Limited and Pyx Explorations Ltd., were amalgamated at year end, retaining the Discovery name. This amalgamation completes the rationalization, begun several years ago, of the group of companies controlled by your company. The amalgamated company is debt free and has assets with an appraised value of some $12,000,000. It is actively working on acquisitions in the western Canadian oil and gas industry where opportunities are

now far better and more reasonably priced than in recent years. Rayrock holds 38% of the equity of the amalgamated company, which is effective control.

The oil and gas assets of Rayrock have been appraised by Martin Petroleum Consulting Ltd. and DeGolyer and MacNaughton, as at December 31st, 1981. These appraisals show the following reserves and values:

Pretax future cash flow, discounted at 15%	$14,428,242 ($3.15 per common share)
Pretax future cash flow, undiscounted	$82,378,469
Net recoverable gas reserves after deduction of all royalty interests	6,240 MMCF (i.e. 6.24 billion cubic feet)
Net recoverable oil reserves, after deduction of all royalty interests	403,263 Barrels

The Alberta Government royalty changes announced April 13th, 1982 have been taken into account.

Rayrock's expenditures for oil and gas exploration and development in 1981 were $1,045,000 in Canada and $204,000 in the United States. The largest single expenditure was with the Signalta Joint Venture, which operates within the east central Alberta gas contract area. Signalta drilled 48 wells in 1981 and 33 of these were cased as potential gas producers.

Oil production in southwest Ontario is the largest source of oil and gas income, however, we expect that future gas production from western Canada will make an important contribution to our revenue. The cash flow from Ontario has been fairly stable as declining production has been offset by increased prices. It now appears, however, that the new Petroleum and Gas Revenue Tax, combined with the current weaker price outlook for oil, will result in a modest decline in Ontario oil cash flow.

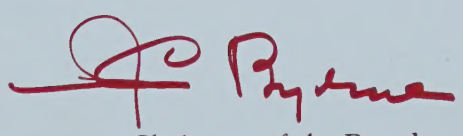
It is with deep sorrow that we record the death of Mr. J. J. Rankin, a member of the Board of Directors since 1958. Mr. Rankin was very prominent in the mining exploration business and his contribution to your company was most valuable.

To fill the vacancy on the board, Mr. Stanley J. Chad was appointed a director on April 23, 1982. Mr. Chad is President of Signalta Resources Limited of Calgary and is well known in the oil and gas industry. We welcome him to the board and look forward to his contribution to the future success of your company.

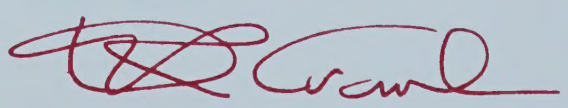
Your company's asset value has increased substantially during recent years and our staff, as well as the senior personnel of the joint ventures in which Rayrock participates, have made a very significant contribution to this increase.

We thank all shareholders for their continued support and we welcome all new shareholders to the company.

On behalf of the Board,



Chairman of the Board



President and Managing Director

Rayrock Operations Report

Mining

Pinson Mining Company

The Pinson mine is a 1,000 ton per day open pit gold mine located some 40 miles northeast of Winnemucca, Nevada. The mine and mill were brought into production on schedule and on budget. First gold bricks were poured in late January 1981. Rayrock has a 26.5% interest and management of the project.

Operating results for 1981 were as follows:

Total tons mined (includes milling ore, heap leach material and waste)	4,414,048
Tons milled	365,819
Grade of ore milled	0.195 oz. gold/ton
Ounces sold	56,369
Mill recovery	86.0%
Operating Costs	U.S. $22.91 per ton milled
Total amount of principal and interest paid to bank in 1981	U.S. $14,453,103
Average price received for gold sold in 1981	U.S. $443.02/oz.

The principal capital expenditures during the year were the purchase of two 50-ton trucks for U.S. $630,000 and tailings dam raising at a cost of U.S. $250,000.

A high priority project at Pinson for 1982 will be to complete the pilot scale heap leach testing and to construct a commercial scale heap leaching facility for the extraction of gold from very low grade material. Other new projects include developing the lower grade B Zone in the Pinson open pit, commencing a regional exploration program and completing additional engineering work on the Preble gold deposit, 12 miles south of Pinson.

Ore reserves at January 1st, 1982 were:

	Tons	Grade Oz. Gold per Ton
Pinson milling ore	2,859,000	0.114
Heap leach ore at Pinson	2,623,600	0.03
Heap leach ore in stockpile	370,000	0.023
Preble deposit	1,340,000	0.08

Cordex IV Syndicate

The Cordex IV Syndicate conducts exploration for mineral properties in the western United States. It is financed equally by Rayrock Mines, Inc., Dome Mines Limited and Lacana Mining Corporation. In 1981, the Syndicate conducted exploration work on ten properties including drilling programs on three. A potentially important gold discovery has been made as described in the Directors' Report. Preliminary exploration has indicated a deposit that is mineable by open pit. A heap leaching operation may be economically viable, and pilot scale tests will be carried out. If further exploration is successful in developing additional good grade tonnage, an engineering study will be done to determine the gold price necessary for a milling installation. Work on the property in 1982 will consist of additional drilling, driving an adit, and heap leach testing.

Discovery Mines Limited

Rayrock holds 38.2% of the issued capital of Discovery Mines Limited. Discovery has a direct plus indirect interest of 89% in a gold property at Gordon Lake, N.W.T., which is leased to Noranda Mines Limited and Pamour Porcupine Mines Limited. The lessees had equipped the property with a camp, mining plant, and mill in 1980. In 1981, the remaining ore above the 1,000 foot level was milled and approximately 15,760 ounces of gold were produced. The mill, plant and camp have now been dismantled for removal from the property. No net profits were earned; however, Discovery will recoup a portion of its expenditures from the lessees. Diamond drilling indicates that the high grade ore vein continues below the 1,000 foot level.

Discovery continues to hold a 50% interest in Johnsby Mines Limited, which company has a very large low grade deposit in the Northwest Territories. The company has some oil production and shut in gas holdings and is currently pursuing the acquisition of a petroleum operation.

Oil and Gas

Rayrock's interests in oil and gas properties have been evaluated as of January 1, 1982. Assets acquired through participations in joint ventures with Signalta Resources Limited were evaluated by DeGolyer and MacNaughton. All other assets were evaluated by Martin Petroleum Consulting Ltd. The following calculated reserves and present values are net after deductions of all royalties and related costs but before corporate income tax. The Alberta Government royalty changes announced April 13, 1982 have been taken into account.

Net recoverable reserves:	Oil	Gas
Proven	403,263 BBLS	4,407.5 MMCF
Probable	— —	1,832.5
Total	403,263 BBLS	6,240.0 MMCF
Pretax future cash flow:		
Undiscounted	$82,378,469	
Discounted at 15%	$14,428,242	

These figures include undeveloped lands estimated to have a value of $677,600.

Southwest Ontario

Rayrock operates three wholly owned waterflood oil fields in southwest Ontario. Although production has been declining, cash flow has been fairly constant in recent years due to oil price increases.

The table below gives the significant operating information for 1980 and 1981:

	1981	1980	% Change
Sales (BBLS)	82,895	99,277	−16.5
Sales Gross	$1,631,530	$1,613,263	+1.1
Royalties and Transportation	$259,044	$262,925	−1.5
Production Expenses	$489,520	$436,570	+12.1
Net Field Revenue	$882,966	$913,767	−3.4

Signalta Joint Venture

Rayrock finances a 5% interest in the Signalta Joint Venture and participated in all projects initiated in 1981. A total of 48 wells were drilled of which 33 were cased as potential gas wells for a success ratio of 70%. The joint venture operates primarily within the gas contract area in east central Alberta.

At the Forestburg Project, in which Rayrock has varying interests up to 12.5%, 3 wells were drilled and cased as potential gas wells. A total of 17 gas wells have now been completed at this field. Six wells are in production and supplying gas to a processing plant with a capacity of 4.5 MMCFD in which Rayrock has an 11.9667% interest.

One well at the Wilkins Project has been placed on production. Rayrock is paying 21.25% of the cost of this farm-in with options which earn interests in 9,600 acres in an area of potential shallow gas in east central Alberta.

Independent reserve estimates as of January 1, 1982 show that Rayrock's share of gross reserves in 52 gas wells in which it participates with Signalta in Canada totals 2,350 MMCF proven plus 241 MMCF probable and 8,764 BBLS of condensate.

Canadian Oil & Gas Fund (1975) Joint Venture

Rayrock has a 28.5% net interest in this joint venture which owns interests in several producing shallow gas properties in southeast Alberta. Rayrock's share of proven and probable net reserves is estimated to be 1,470 MMCF. Net income to Rayrock in 1981 amounted to $172,677.

To maintain production levels at the producing fields, a total of 25 infill gas wells were drilled and completed during the year. In addition, 6 exploratory wells were drilled with 4 successfully completed as potential gas wells and 2 dry holes.

General

Rayrock continues to participate in a number of other petroleum joint ventures. Significant activities in 1981 included financing 36.125% of the purchase of 5 Crown Leases covering approximately 1,920 acres in the Temple area of northeastern British Columbia. These lands are underlain by potentially gas bearing sands of the Halfway Formation. Rayrock funded 8% of the Sawtooth Project which is exploring for oil in southern Alberta. A land position is gradually being accumulated with 10,480 acres acquired at Alberta Crown sales in 1981. The 1979 Renaissance Resources Joint Venture drilled two potential gas wells and one dry hole in 1981. Through participation in the 1978 and 1979 Renaissance Joint Ventures, Rayrock has varying interests, generally less than 5.0%, in a total of 57 gas wells and 4 oil wells.

United States

Rayrock has a 2.61334% working interest in a joint venture operated by Diamond Shamrock Inc. in the Comertown area of northeast Montana. One well was drilled in 1980 and three in 1981. Two were completed as Red River Formation oil wells, the third a Ratcliffe Formation oil well and the fourth a dry hole which is being converted into a salt water disposal well. Rayrock's share of estimated reserves after royalties and taxes totals 14,000 BBLS. Three wells are in production at a combined average of 480 BBLS per day.

Through the Signalta Joint Venture, Rayrock participates in oil exploration in Oklahoma. Fourteen wells drilled in 1981 resulted in 6 gas wells, 2 oil wells and 6 dry holes. The successful wells are all in production.

Consolidated Balance Sheet as at December 31, 1981

Assets	1981	1980
Current assets		
Cash	$ 33,977	$ 262,521
Short-term deposits	125,000	381,417
Accounts receivable and prepaid expenses	281,544	139,268
	440,521	783,206
Investments and advances (note 2 and 10)	3,348,463	3,315,600
Oil and gas properties		
Petroleum and natural gas leases — at cost, less accumulated depletion of $1,769,910 (1980 — $1,532,708)	4,106,100	3,163,190
Well equipment — at cost, less accumulated depreciation of $300,439 (1980 — $243,777)	141,771	128,959
	4,247,871	3,292,149
Mining properties		
Interest in Pinson Joint Venture (note 3)	4,570,939	1,088,810
Interest in net assets of the Icon Sullivan Joint Venture — at estimated realizable value	70,457	53,104
Mine buildings and equipment — at cost, less accumulated depreciation of $85,880 (1980 — $75,504)	41,501	51,876
Deferred development expenses	115,751	—
	4,798,648	1,193,790
Other assets	81,061	95,596
	$12,916,564	$8,680,341

Liabilities

	1981	1980
Current liabilities		
Accounts payable and accrued liabilities	$ 219,936	$ 239,052
Income taxes payable	15,000	—
	234,936	239,052
Deferred income taxes	1,342,710	925,000
Deferred revenue	51,430	33,574
	1,629,076	1,197,626

Shareholders' Equity

Capital stock (note 4)		
Authorized—		
2,000,000 6% cumulative preference shares, redeemable at their par value of $1 each		
6,000,000 common shares of no par value		
Issued and fully paid —		
200,000 preference shares (1980 — 100,000)	200,000	100,000
4,549,000 common shares (1980 — 4,510,000)	4,673,900	4,506,200
Contributed surplus (note 4)	760,584	774,898
Retained earnings	5,695,158	2,290,921
	11,329,642	7,672,019
Repurchased capital stock (note 4)	42,154	189,304
	11,287,488	7,482,715
	$12,916,564	$8,680,341

SIGNED ON BEHALF OF THE BOARD

J. C. BYRNE, Director

H. J. WHELAN, Director

Consolidated Statement of Earnings

For the Year Ended December 31, 1981

	1981	1980
Revenue		
Revenue from Pinson mine operations	$ 7,877,347	$ —
Revenue from petroleum operations	2,328,778	2,159,122
Investment income	365,064	623,869
	10,571,189	2,782,991
Expenses		
Cost of Pinson mine operations —		
Depreciation and amortization	775,707	—
Interest expense	781,509	—
Operating and other costs	3,155,792	—
Cost of petroleum production	1,111,768	1,005,276
Administrative and general	176,499	177,431
Depreciation, amortization and depletion	311,803	266,329
Petroleum and gas revenue tax	79,357	—
	6,392,435	1,449,036
Earnings before the undernoted items	4,178,754	1,333,955
Exploration expenditures	368,879	409,072
	3,809,875	924,883
Provision for (recovery of) income taxes (note 6)		
Current	(19,495)	(13,354)
Deferred	867,710	203,000
	848,215	189,646
	2,961,660	735,237
Share of earnings (loss) as determined by the equity method (note 10)	(1,363)	91,980
Earnings before extraordinary items	2,960,297	827,217
Extraordinary items (note 7)	450,000	746,813
Net earnings for the year	$ 3,410,297	$1,574,030
Earnings per share before extraordinary items	$0.65	$0.18
Earnings per share for the year	$0.75	$0.35

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1981

	1981	1980
Retained earnings — beginning of year		
As previously reported	$2,084,618	$ 731,382
Adjustment to prior years' net earnings (note 10)	206,303	16,939
As restated	2,290,921	748,321
Net earnings for the year	3,410,297	1,574,030
Dividends on preference shares	(6,060)	(5,500)
Share issue expenses as determined by the equity method	—	(25,930)
Retained earnings — end of year	$5,695,158	$2,290,921

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rayrock Resources Limited as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for investment income referred to in note 10 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada
March 19, 1982

COOPERS & LYBRAND
Chartered Accountants

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1981

	1981	1980
Source of working capital		
Current operations —		
Earnings for the year before extraordinary items	$2,960,297	$ 827,217
Items not affecting working capital —		
Deferred income taxes	867,710	203,000
Share of loss (earnings) determined by the equity method	1,363	(91,980)
Depreciation, amortization and depletion	311,803	266,329
(Gain) on sale of investments	(223,629)	(498,784)
Oil interests written off	—	2,512
Amortization of other assets	23,650	—
Provided from operations	3,941,194	708,294
Proceeds on sale of investments	620,711	1,525,467
Proceeds on sale of equipment	—	1,675
Proceeds on issue of capital stock	484,579	62,360
Increase in deferred revenue	17,856	25,661
	5,064,340	2,323,457
Use of working capital		
Investment in Pinson Joint Venture	3,482,129	414,058
Dividends	6,060	5,500
Deferred development expenses	115,751	—
Purchase of equipment	16,678	21,374
Additions to oil and gas properties	1,249,587	1,157,193
Purchase of capital stock	84,043	174,030
Purchase of investments	78,761	928,575
Advances made to officers and employees	369,900	(12,800)
Purchase of other assets	—	70,952
	5,402,909	2,758,882
(Decrease) in working capital	(338,569)	(435,425)
Working capital — beginning of year	544,154	979,579
Working capital — end of year	$ 205,585	$ 544,154

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1981

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles. Those policies considered particularly significant are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines, Inc.

(b) Translation of accounts of foreign subsidiary company

The accounts of the wholly-owned U.S. subsidiary are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates for working capital items, at historical rates for non-current assets and liabilities (including depreciation and depletion), and at average exchange rates prevailing during the year for revenue and expenses.

(c) Income taxes

The company follows the deferral method of tax allocation whereby the provision for income taxes is based upon income reported in the accounts. Deferred income taxes on the balance sheet result principally from accelerated claims for depletion of oil and gas properties for tax purposes over the corresponding expense for accounting purposes.

(d) Exploration expenditures

Costs incurred in exploring for minerals are charged to expense in the year incurred, unless, in the opinion of management, the expenditure is likely to result in the establishment of a viable income-producing property.

Costs incurred in exploring for oil and gas, including participations in joint ventures, are capitalized until completion of the particular exploration and drilling programme, at which time the costs of unsuccessful programmes are written off.

(e) Depreciation and depletion

Depreciation is provided on a declining balance basis at rates sufficient to amortize the cost of the assets over their estimated useful lives. The rates in use are as follows:

Well equipment	—	4%-30%
Mine buildings and equipment	—	20%
Other fixed assets	—	5%-20%

Depletion of oil and gas properties (substantially all of which are located in Canada) and drilling costs is determined by the unit-of-production method based on proven reserves.

(f) Investments

The investments in shares of Discovery Mines Limited ("Discovery") and Pyx Explorations Ltd. ("Pyx"), significantly influenced companies, are carried at cost adjusted by the company's share of the earnings or losses since significant influence was acquired. Discovery owns 21.6% of the common shares and 100% of the preference shares of the company; the company's equity in the earnings or losses of Discovery reflected in the consolidated statement of earnings is based on the earnings of Discovery excluding the latter's interest in the earnings of the company due to the existence of the reciprocal shareholdings.

Other long-term investments are carried at cost and are written down when there is evidence that their inherent worth has declined below their carried value.

2. Investments and Advances

	1981	1980
Shares —		
Investment in shares of Discovery Mines Limited (41.1% owned) and Pyx Explorations Ltd. (32.4% owned) are accounted for by the equity method (quoted market value 1981 — $3,511,388; 1980 — $10,819,000)	$2,452,398	$2,459,827
Other quoted shares — at cost (quoted market value 1981 — $478,292; 1980 — $1,518,000)	374,202	699,957
Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off	60,563	64,416
	2,887,163	3,224,200
Advances		
Non-interest bearing house and share purchase loans due from officers and employees (note 9(c)), due on or before December 31, 1986	474,100	104,200
Less: Current portion (included in accounts receivable)	(12,800)	(12,800)
	461,300	91,400
	$3,348,463	$3,315,600

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. Pinson Joint Venture

The company holds a 26.5% interest in the Pinson Joint Venture which operates an open pit gold mine in Nevada. In 1979, it was determined that gold was commercially feasible to mine and the development of the open pit mine and an on-site mill commenced. In January 1981, the joint venture began to mill gold. This investment continues to be accounted for substantially by the equity method. Income taxes attributable to the earnings determined by the equity method are calculated by the individual partners and not by the joint venture.

4. Capital Stock and Contributed Surplus

(a) During the year, the company continued its policy of purchasing its own shares for the stock incentive plan by purchasing 17,000 shares at a cost of $84,043.

The company has initiated a new employee stock purchase plan to supplement the existing stock option plan. During the year, the following transactions took place under these plans:

i) issue of 39,000 treasury shares for $167,700 under the employee stock purchase plan;

ii) sale of 52,000 shares of repurchased capital stock for $216,880 under the plans which proceeds were below the company's cost by $14,314;

At December 31, 1981, the company had on hand 10,000 repurchased shares of capital stock with a cost of $42,154.

(b) Employee stock options for 10,000 shares were outstanding at December 31, 1981, exercisable at a price of $1.23 per share. The options expire on December 31, 1983.

(c) The changes in the contributed surplus account in the year are as follows:

	1981	1980
Balance — beginning of the year	$774,898	$632,431
Increase (decrease) arising on the reissue of shares (note 4(a))	(14,314)	142,467
Balance — end of year	$760,584	$774,898

5. Remuneration to Directors and Senior Officers

The company pays all the remuneration of directors and senior officers, as defined in the Business Corporations Act of Ontario and including the five highest paid employees of certain

associated companies, and is reimbursed by these companies for their proportionate share thereof. The total of such direct remuneration received by these directors, officers and employees in the year ended December 31, 1981 was $238,707 (1980 — $225,800).

6. Income Taxes

The effective rate of tax is less than the combined federal and provincial statutory income tax rate in Canada and the federal statutory rate in the United States because of permanent deductions permitted by the authorities such as depletion allowances, resource allowances and investment tax credits.

During the current year, the potential tax benefit arising from the substantial loss carry-forward available to the wholly-owned U.S. subsidiary was recognized and recorded as an extraordinary item.

7. Extraordinary Items

	1981	1980
Share of extraordinary items of significantly influenced companies as determined by the equity method, such items consisting primarily of a gain on sale of interests in a mining property	$ —	$746,813
Tax benefit arising on utilization of the loss carry-forwards in the U.S. subsidiary	450,000	—
	$450,000	$746,813

8. Contingent Liabilities and Commitments

(a) The company is one of the defendants in a $2,000,000 lawsuit which was commenced in the Superior Court of Quebec by certain Cree Indian bands in northwest Quebec relating to an alleged environmental problem, arising out of a joint venture operation in which the company has a 23.75% interest. The other defendants are Kerr Addison Mines Limited, Newmont Exploration of Canada Limited and Gunnex Limited. In the opinion of legal counsel for the company, it is not possible to predict the outcome of this action.

(b) The company has jointly guaranteed the bank loan of the Pinson Joint Venture with the other participants in the venture to a maximum of U.S.$4,173,750. This loan was fully repaid on March 12, 1982.

9. Related Party Transactions

(a) As discussed in note 5 the company pays all the remuneration of the directors and senior officers together with the rent and other joint costs (including general exploration) of associated companies, principally Discovery and Pyx. The amounts charged to the above companies in the year were as follows:

Discovery	$ 77,806
Pyx	$101,350

(b) The company has entered into exploration joint ventures in which certain directors and senior officers also participate. In each case, each participant incurs its proportionate share of costs relative to its joint venture interest.

(c) During the year, the company made seven non-interest bearing share purchase loans to its employees (including four senior officers).

10. Change in Accounting Policy

During the year, the company adopted the policy as set out in note 1(f) in accounting for its share on an equity basis of the earnings of Discovery Mines Limited. Previously, the company reflected in its accounts the net effect on earnings on an equity basis of the reciprocal shareholdings between the company and Discovery Mines Limited.

As a result of the change, which has been applied retroactively, consolidated net earnings for 1981 and 1980 have been increased by $474,708 and $192,889 respectively, with an increase of $16,939 applicable to years prior to 1980.

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- in 2 subsidiaries
- net earnings higher
- subject to gold price

new gold discovery in Nevada: when production
- increased spending program - +/- 1.5 million this year (US)
- app. to evaluate

- increased gas sales up
- +15% to approximately gas sales
- drill operations cost $1,75 / oz.

= one quite balanced year of production cost.
(mill 0.12 - 0.14 - ton per day mill on 1000

- forward sales:
  - as of 4300
  - may be better
  - - heat still up
  - at least 4,300 oz a month

- no forward sales
- short rally. Should - this